

proposal effects a change in an existing service of NSCC that (i) does not adversely affect the safeguarding of securities or funds in the custody or control of NSCC or for which it is responsible and (ii) does not significantly affect the respective rights or obligations of DTC or persons using the service. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of NSCC. All submission should refer to File No. SR-NSCC-98-13 and should be submitted by December 1, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Johathan G. Katz,**

*Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-40638; File No. SR-OCC-98-09]

### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of a Proposed Rule Change Relating to Differential Index Options

November 4, 1998.

Pursuant to Section 19(b) (1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on August 7, 1998, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in items I, II, and III below, which items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Under the proposed rule change, OCC will amend its By-Laws and Rules to provide for the clearance and settlement of differential index options.<sup>2</sup>

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>3</sup>

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Description of Differential Index Options

The American Stock Exchange, Inc. ("AMEX") has submitted a proposed rule change to the Commission to trade

differential index options.<sup>4</sup> The purpose of OCC's proposal is to provide for the issuance, clearance, and settlement of differential index options.

A differential index is a measure, expressed in percentage terms, of the difference between the performance of one security or index (called the "designated interest") and the performance of another security or index (called the "benchmark") over the life of an option. The determination of the value of a differential index differs from the determination of the value of a standard index although both types of indices have a specific value at any given time.<sup>5</sup>

A differential index option, like other index options, is a cash settled option that entitles an exercising holder to receive and requires an assigned writer to pay an "exercise settlement amount."<sup>6</sup> In the case of a call, the exercise settlement amount is based on the extent to which the aggregate current index value exceeds the aggregate exercise price. In the case of a put, the exercise settlement amount is determined by the extent to which the aggregate exercise price exceeds the aggregate current index value. A differential index option differs from a standard index option in that its exercise settlement amount is based upon the difference between the relative performance of two securities or indices rather than the absolute performance of a single index. The differential index options that AMEX has proposed to trade are European style, meaning that they can be exercised only upon expiration.

The clearance and settlement of differential index options is similar to that of other index options. The reporting authority for the underlying differential index will be required to provide the value of the index to OCC as of a specified date and time.<sup>7</sup> OCC will then use the value of the differential index to determine the exercise settlement amount. OCC believes that differential index options can readily be processed, margined, and settled pursuant to the same rules and

<sup>4</sup> Securities Exchange Act Release No. 40537 (October 8, 1998), 63 FR 56052 [File No. SR-AMEX-98-12].

<sup>5</sup> According to OCC, AMEX has proposed to trade Index Differential Options (a designated index versus a benchmark index), Equity Differential Options (a designated stock versus a benchmark index), and Paired Stock Differential Options (a designated stock versus a benchmark stock).

<sup>6</sup> Differential index options are index options even if the designated security or the benchmark security is an equity security.

<sup>7</sup> Computation of differential index values will be the exclusive function of the reporting authority.

<sup>1</sup> 15 U.S.C. 78s(b) (1).

<sup>2</sup> The complete text of the proposed amendments to OCC's By-Laws and Rules is included in OCC's filing, which is available for inspection and copying at the Commission's public reference room and through OCC.

<sup>3</sup> The Commission has modified the text of the summaries prepared by OCC.

<sup>7</sup> 17 CFR 200.30-3(a)(12).

procedures that apply to standard index options with certain modifications.

## 2. Proposed Amendments to Articles I and VI of the By-Laws

Under the proposed rule change, OCC will add a definition of "underlying interest" to Article I of the By-Laws to provide a generic term for underlying securities, indices, currencies, and other underlying interests. In addition, OCC will amend Article IV, Section 11 of the By-Laws to reflect that the term "index group" is no longer defined in relation to index options although it is still defined for IPs.

## 3. Proposed Amendments to Article XVII of the By-Laws

OCC will amend Article XVII of the By-Laws, which applies to index options generally, to add specific provisions applicable to differential index options and to revise certain terms to be sufficiently generic to apply to differential index options as well as other index options. The term "index group" will be eliminated altogether. The term "index security" will be added to refer to an individual security included in an index of securities.<sup>8</sup> The term "index security" will apply to differential index options only when either the designated interest or the benchmark is itself an index. Thus, for example, an individual security that is the designated interest with respect to a differential index is not included in the definition of an "index security." OCC will add other terms referring expressly to differential index options which OCC believes are self-explanatory.

OCC will amend Article XVII, Section 2 of the By-Laws for purposes of clarity. OCC does not intend for this amendment to create a substantive change.

OCC will modify Article XVII, Section 3 of the By-Laws to make it clear that as is the case with any other index option OCC will ordinarily make no adjustments to the terms of a differential index option if index securities are added to or deleted from or if their relative weight is changed in an underlying index that is either the designated interest or the benchmark for the differential index. In addition, OCC will make clear that it will ordinarily make no adjustments to the terms of a differential index option having a security as differential index or benchmark if certain dilutive or concentrative events occur, such as a stock split, or if certain extraordinary

events occur, such as a merger of the issuer. OCC will reserve the right to make an adjustment to the terms of a differential index option only if one of the enumerated events causes significant discontinuity in the level of the differential index and OCC determines that the discontinuity has not been adequately remedied.

In addition, OCC will make slight modifications to Article XVII, Section 4, relating to the unavailability or inaccuracy of index values, in order to incorporate provisions for differential index options. In addition, OCC will amend Article XVII, Section 5, relating to the time for determination of current index value, in order to eliminate the reference to index groups.

## 4. Proposed Amendments to Existing Rules

OCC will modify provisions in Rule 207 to accommodate differential index options. In addition, OCC will modify Interpretation and Policy .03 under Rule 602, Rule 1801(c), and Rule 1801(e) to remove references to index groups with respect to index options.

OCC believes that the proposed rule change is consistent with the purposes and requirements of Section 17A of the Act<sup>9</sup> and the rules and regulations thereunder because it applies the same procedures and safeguards to differential index options that OCC has employed with respect to other index options. OCC believes that these procedures have proven effective in promoting the prompt and accurate clearance and settlement of securities transactions and in safeguarding securities and funds.

### *(B) Self-Regulatory Organization's Statement on Burden on Competition*

OCC does not believe that the proposed rule change would have any material adverse impact on competition.

### *(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others*

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such

longer period to be appropriate and publishes its reasons for so finding or (ii) as to which OCC consents, the Commission will:

(A) by order approve such proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

## **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of OCC. All submissions should refer to File No. SR-OCC-98-09 and should be submitted by December 1, 1998.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

**Jonathan G. Katz,**  
Secretary.

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## **SMALL BUSINESS ADMINISTRATION**

[Declaration of Disaster #3145]

### **State of Texas (Amendment #1)**

In accordance with information received from the Federal Emergency Management Agency, the above-numbered Declaration is hereby amended to establish the incident period as beginning on October 17, 1998 and continuing through October 31, 1998.

All other information remains the same, i.e., the deadline for filing

<sup>8</sup>In addition, OCC will make technical amendments to the By-Laws and Rules to conform to these definitional changes.

<sup>9</sup> 15 U.S.C. 78q-1.

<sup>10</sup> 17 CFR 200.30-3(a)(12).